

Docket Nos. 00-0233/00-0335 (Consolidated)--Phase II  
ICC Staff Exhibit 7.0

OFFICIAL FILE

ILL. C. C. 00-0233/00-0335  
*ICC Staff* 7.0  
Witness \_\_\_\_\_  
Date *6/20/01* Reporter *Paul*

REBUTTAL TESTIMONY

OF

BILL L. VOSS

ACCOUNTING DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

ILLINOIS UNIVERSAL SERVICE FUND

Docket Nos. 00-0233/00-0335 (Consolidated)  
Phase II

May 31, 2001

TABLE OF CONTENTS

Witness Identification .....	1
Description of Testimony .....	2
Federal Total High Cost Fund Support .....	5
Illinois Universal Service Funding Calculation .....	9
Adams Telephone Cooperative .....	10
Alhambra-Grantfork Telephone Company .....	10
Cambridge Telephone Company .....	12
Cass Telephone Company .....	12
C-R Telephone Company .....	13
Crossville Telephone Company .....	14
Egyptian Telephone Cooperative .....	14
El Paso Telephone Company .....	15
Frontier Companies .....	17
Flat Rock Telephone Cooperative .....	24
Glasford Telephone Company .....	24
Grafton Telephone Company .....	25
Gridley Telephone Company .....	25
Harrisonville Telephone Company .....	26
Conclusion .....	27

1 WITNESS IDENTIFICATION

2 Q. Please state your name and business address.

3 A. My name is Bill L. Voss. My business address is 527 East Capitol Avenue,  
4 Springfield, Illinois 62701.

5 Q. By whom are you employed and in what capacity?

6 A. I am an Accounting Supervisor in the Accounting Department of the Financial  
7 Analysis Division of the Illinois Commerce Commission.

8 Q. Please describe your background.

9 A. I joined the Staff of the Illinois Commerce Commission ("Staff") in March 1989. I  
10 am a Certified Public Accountant licensed to practice in Illinois. My prior  
11 accounting experience includes three years as an accounting supervisor for a  
12 telephone utility and five years as the corporate controller of a small business. I  
13 hold a Master of Accounting Science degree from the University of Illinois at  
14 Urbana-Champaign.

15 Q. What is the function of the Accounting Department of the Illinois Commerce  
16 Commission?

17 A. The Department's function is to monitor the financial condition of public utilities  
18 as part of the Commission's responsibilities under Article IV of the Public Utilities  
19 Act and to provide accounting expertise on matters before the Commission.

20 Q. Have you previously testified before this Commission?

21 A. Yes, I have.

22 Q. What are your responsibilities in this proceeding?

23 A. The Manager of the Accounting Department of the Illinois Commerce  
24 Commission assigned me to this proceeding. My responsibilities include  
25 reviewing the testimony and documents in this proceeding to determine the  
26 accuracy and appropriateness of the funding requests of the telecommunications  
27 entities (singularly "Company" and collectively "Companies") for support from the  
28 Illinois Universal Service Fund ("IUSF").

29 DESCRIPTION OF TESTIMONY

30 Q. What is the purpose of your Rebuttal Testimony?

31 A. The purpose of my testimony is to present the Staff-calculated funding  
32 requirements for IUSF support for 19 Companies and to present a discussion of

33 a Federal funding difference common to all 39 Companies requesting IUSF  
34 support.

35 Q. Are you sponsoring any schedules as part of Staff Exhibit 7.0?

36 A. Yes. I am sponsoring the following schedules:

37 Schedule 7.01 Adams Telephone Cooperative  
38 Staff Calculated Funding Requirement

39 Schedule 7.02 Alhambra-Grant Fork Telephone Company  
40 Staff Calculated Funding Requirement

41 Schedule 7.03 Cambridge Telephone Company  
42 Staff Calculated Funding Requirement

43 Schedule 7.04 Cass Telephone Company  
44 Staff Calculated Funding Requirement

45 Schedule 7.05 C-R Telephone Company  
46 Staff Calculated Funding Requirement

47 Schedule 7.06 Crossville Telephone Company  
48 Staff Calculated Funding Requirement

49 Schedule 7.07 Egyptian Telephone Cooperative  
50 Staff Calculated Funding Requirement

51 Schedule 7.08 El Paso Telephone Company  
52 Staff Calculated Funding Requirement

53 Schedule 7.09 Frontier Communications of DePue, Inc.  
54 Staff Calculated Funding Requirement

55 Schedule 7.10 Frontier Communications of Illinois, Inc.  
56 Staff Calculated Funding Requirement

Docket Nos. 00-0233/00-0335 (Consolidated)--Phase II  
ICC Staff Exhibit 7.0

57	Schedule 7.11	Frontier Communications of Lakeside, Inc.
58		Staff Calculated Funding Requirement
59	Schedule 7.12	Frontier Communications-Midland, Inc.
60		Staff Calculated Funding Requirement
61	Schedule 7.13	Frontier Communications-Prairie, Inc.
62		Staff Calculated Funding Requirement
63	Schedule 7.14	Frontier Communications-Schuyler, Inc.
64		Staff Calculated Funding Requirement
65	Schedule 7.15	Flat Rock Telephone Co-Op
66		Staff Calculated Funding Requirement
67	Schedule 7.16	Glasford Telephone Company
68		Staff Calculated Funding Requirement
69	Schedule 7.17	Grafton Telephone Company
70		Staff Calculated Funding Requirement
71	Schedule 7.18	Gridley Telephone Company
72		Staff Calculated Funding Requirement
73	Schedule 7.19	Harrisonville Telephone Company
74		Staff Calculated Funding Requirement
75	Schedule 7.20	Comparison of Federal Total High Cost Fund Support
76	Schedule 7.21	Frontier Companies
77		Calculation of Depreciation Expense Adjustment

78 Q. Please describe the organization of your Rebuttal Testimony.

79 A. First, I present, in narrative testimony, a discussion of a Federal funding  
80 difference for all 39 Companies seeking IUSF support and then a discussion of

81 the Staff Calculated Funding Requirements and adjustments for 19 Companies.

82 My schedules follow the narrative testimony.

83 FEDERAL TOTAL HIGH COST FUND SUPPORT

84 Q. Please describe the Federal funding difference for the 39 Companies.

85 A. All of the 39 Companies requesting IUSF support receive Federal Total High  
86 Cost Fund support ("FTHCF support"). The amount of this support varies from  
87 year to year. I have prepared an analysis of FTHCF support for the years 2000  
88 and 2001.

89 Q. What elements of Federal support are included in the FTHCF support?

90 A. FTHCF support includes Federal support for High Cost Loop, Interstate Access,  
91 Long Term Support, and Local Switching Support.

92 Q. Have any of the Companies proposed similar adjustments for changing Federal  
93 support levels between the years 2000 and 2001?

94 A. Yes. Of the 19 Companies that I reviewed, five Companies proposed  
95 adjustments in their Illinois Universal Service Funding Calculations for changes  
96 in the amount of Federal High Cost Loop funding between the years 2000 and  
97 2001. These five Companies are C-R Telephone Company, Egyptian Telephone

98 Cooperative, El Paso Telephone Company, Gridley Telephone Company, and  
99 Harrisonville Telephone Company.

100 Q. What is the source of your analysis and calculation of the funding differences for  
101 FTHCF support?

102 A. In response to Staff Data Request SDR-Egyptian-004, Egyptian Telephone  
103 Cooperative provided a description of its Federal High Cost Loop funding  
104 adjustment and source documents, entitled "UNIVERSAL SERVICE FUNDING,  
105 High Cost Fund Support by Study Area," prepared by the Universal Service  
106 Administrative Company ("USAC"). Information in these USAC source  
107 documents included the amounts of FTHCF support for all 39 Companies  
108 seeking IUSF support for six calendar quarters:

- 109 • First Quarter of 2000 ("2000-1Q"),
- 110 • Second Quarter of 2000 ("2000-2Q"),
- 111 • Third Quarter of 2000 ("2000-3Q"),
- 112 • Fourth Quarter of 2000 ("2000-4Q"),
- 113 • First Quarter of 2001 ("2001-1Q"), and
- 114 • Second Quarter of 2001 ("2001-2Q").

115 Q. What are the results of your analysis of the USAC source documents?



116 A. My analysis shows that the 39 Companies requesting IUSF support received a  
117 total of \$19,451,658 in FTHCF support in 2000 and, based upon an  
118 annualization of FTHCF support for 2001-1Q and 2001-2Q, will receive  
119 \$20,890,788 in 2001. In total, the 39 Companies requesting IUSF support will  
120 receive \$1,439,130 in additional FTHCF support in 2001.

121 Q. Describe the calculation of the differences in FTHCF support.

122 A. The differences for each of the 39 Companies are calculated on ICC Staff  
123 Exhibit 7.0 Schedule 7.20, entitled "Comparison of Federal Total High Cost Fund  
124 Support." Schedule 7.20 is a two-page schedule.

125 Page 2 of Schedule 7.20 presents the aggregation of 2000 Total FTHCF support  
126 and the calculation of 2001 Annualized FTHCF support. Columns b, c, d, and e  
127 show the quarterly amounts of FTHCF support for each of the 39 Companies  
128 listed in column a; these quarterly amounts are taken from the USAC source  
129 documents. Column f presents the 2000 Total of the quarterly amounts in  
130 columns b, c, d, and e. Columns g and h show the quarterly amounts of FTHCF  
131 support for the first and second quarters of 2001 from the USAC source  
132 documents. Column i presents the 6-Month Total of the quarterly amounts in  
133 columns g and h. Column j presents the calculated 2001 Annualized amounts of  
134 FTHCF support; the amounts in column j are the result of multiplying the 6-Month  
135 Total in column i by 2.

Page 1 calculates the Funding Difference for each of the 39 Companies. Column B shows the schedule numbers in ICC Staff Exhibit 6.0 and ICC Staff Exhibit 7.0 for each of the 39 Companies listed in column a. Columns c and d presents the 2000 Total amounts and the 2001 Annualized amounts from page 2, columns f and j, respectively. Column e presents the funding differences between the years 2000 and 2001. Each Funding Difference in column e is the result of subtracting the 2000 Total amount in column c from the 2001 Annualized amount in column d. A positive amount in column e indicates an amount of increased FTHCF support in 2001.

Q. Should the Illinois Universal Service Funding Calculations for each of the 39 Companies be adjusted for the funding differences in FTHCF support between the years 2000 and 2001?

A. Yes. When material, an adjustment should be included in the Illinois Universal Service Funding Calculations presented on ICC Staff Exhibit 6.0, Schedules 6.01 through 6.20, and ICC Staff Exhibit 7.0, Schedules 7.01 through 7.19.

Q. Should the Funding Difference resulting from the change in FTHCF support between the years 2000 and 2001 offset by any other revenue change for each of the 39 Companies?

A. No. Based upon my analysis, no additional adjustment to the Illinois Universal Service Funding Calculation is required. Of the 19 Companies that I reviewed,

156 the five Companies proposing adjustments for Federal High Cost Loop funding  
157 adjusted their levels of Federal High Cost Loop funding and did not propose any  
158 compensating adjustments.

159 ILLINOIS UNIVERSAL SERVICE FUNDING CALCULATION

160 Q. Have you reviewed the funding requirements of the 19 Companies for which you  
161 are responsible?

162 A. Yes.

163 Q. What is the purpose of Schedules 7.01 through 7.19 that you have previously  
164 identified?

165 A. The purpose of these schedules is to present the Staff Calculated Funding  
166 Requirement for each of the 19 Companies identified on the schedules. Each of  
167 these schedules consists of two pages.

168 Q. What is the purpose of page 1 of each schedule?

169 A. Page 1 calculates the amount of IUSF support required to provide for total cost  
170 plus a fair return on investment. The return on investment is calculated using the  
171 After-Tax Cost of Capital proposed by Staff witness Pregozen in Staff Exhibit  
172 5.0. The source of the amounts in column b is the final column on page 1 of the

173 Illinois Universal Service Funding Calculation schedule presented by each of the  
174 19 Companies in its direct testimony. Column c identifies any Staff Adjustment  
175 presented on page 2 of each schedule. Column d calculates Staff Adjusted  
176 Amount of proposed IUSF support based upon Staff adjustments. The Staff  
177 ROR Deficiency is presented in column d at line 28.

178 Q. What is the purpose of page 2 of each schedule?

179 A. Page 2 calculates and identifies the Staff adjustments presented on page 1 in  
180 column c.

181 ADAMS TELEPHONE COOPERATIVE

182 Q. Are you proposing any adjustments for Adams Telephone Cooperative?

183 A. Yes. I am proposing an adjustment for the funding difference in FTHCF support  
184 between the years 2000 and 2001. Earlier in this testimony, I discuss the  
185 calculation of this funding difference. This adjustment is presented on page 2 of  
186 Schedule 7.01 and included at column c, line 14, on page 1 of Schedule 7.01.

187 ALHAMBRA-GRANTFORK TELEPHONE COMPANY

188 Q. Are you proposing any adjustments for Alhambra-Grantfork Telephone  
189 Company?

190 A. Yes. I am proposing two adjustments.

191 Q. What is the first adjustment?

192 A. My first adjustment removes an expense amount attributable to non-regulated  
193 activities. Alhambra-Grantfork Telephone Company ("A-G") recorded the  
194 *revenues from these activities in non-regulated revenue accounts but included*  
195 the expenses associated with these non-regulated activities in a regulated  
196 expense account. In the response to Staff Data Request SDR-Alhambra-  
197 Grantfork-003, A-G stated:

198 The amounts included in account 7991.0000 "Miscellaneous-Non-  
199 Regulated" includes [sic] revenue from the sale of non-regulated  
200 items such as key system and residential phone sales. The  
201 amounts included in account 7991.0100 "Leased Equipment"  
202 includes [sic] the revenues from leases of items such as residential  
203 phones or leases of key systems. The amounts included in  
204 account 6311.000[0] "Station Apparatus Expense" includes [sic]  
205 expenses associated with the revenue in account 7991.000[0] and  
206 7991.0100.

207 A-G's Annual Report to the Commission, ICC Form 23A, for the year 2000  
208 shows an amount of \$15,693 in Account 6311; the amount in Account 6311 is  
209 included in A-G's Total Operating Expenses of \$892,204. My adjustment  
210 removes the expense amount attributable to non-regulated activities from  
211 regulated expenses. This adjustment is presented on page 2 of Schedule 7.02  
212 and included at column c, lines 7 and 17, on page 1 of Schedule 7.02.

213 Q. What is the second adjustment?

214 A. My second adjustment is an adjustment for the funding difference in FTHCF  
215 support between the years 2000 and 2001. Earlier in this testimony, I discuss  
216 the calculation of this funding difference. This adjustment is presented on page  
217 2 of Schedule 7.02 and included at column c, line 14, on page 1 of Schedule  
218 7.02.

219 CAMBRIDGE TELEPHONE COMPANY

220 Q. Are you proposing any adjustments for Cambridge Telephone Company?

221 A. Yes. I am proposing an adjustment for the funding difference in FTHCF support  
222 between the years 2000 and 2001. Earlier in this testimony, I discuss the  
223 calculation of this funding difference. This adjustment is presented on page 2 of  
224 Schedule 7.03 and included at column c, line 14, on page 1 of Schedule 7.03.

225 CASS TELEPHONE COMPANY

226 Q. Are you proposing any adjustments for Cass Telephone Company?

227 A. Yes. I am proposing an adjustment for the funding difference in FTHCF support  
228 between the years 2000 and 2001. Earlier in this testimony, I discuss the  
229 calculation of this funding difference. This adjustment is presented on page 2 of  
230 Schedule 7.04 and included at column c, line 14, on page 1 of Schedule 7.04.

231 C-R TELEPHONE COMPANY

232 Q. Are you proposing any adjustments for C-R Telephone Company?

233 A. Yes. I am proposing two adjustments.

234 Q. What is the first adjustment?

235 A. My first adjustment removes an amount that C-R Telephone Company ("C-R")  
236 included in rate base pertaining to intangibles. In the response to Staff Data  
237 Request SDR-C-R-004, C-R stated: "The intangibles were incorrectly left in the  
238 rate base . . ." C-R provided a revised Illinois Universal Service Funding  
239 Calculation that reduced its amount of Net Regulated Plant by \$268,750. This  
240 adjustment is presented on page 2 of Schedule 7.05 and included at column c,  
241 line 1, on page 1 of Schedule 7.05.

242 Q. What is the second adjustment?

243 A. My second adjustment is an adjustment for the funding difference in FTHCF  
244 support between the years 2000 and 2001. As I mention earlier in this  
245 testimony, C-R included an adjustment for change in level of Federal support for  
246 the High Cost Loop Fund. C-R increased its revenues by \$21,915. However,  
247 the increase in Federal High Cost Loop Fund support was partially offset by a  
248 decrease in Federal Local Switching Support funding. The \$8,103 Funding

Difference calculated on Schedule 7.20 calculates the total change in Federal support for the elements of the FTHCF support: High Cost Loop, Interstate Access, Long Term Support, and Local Switching Support. The \$8,103 increase in FTHCF support is shown on line 4 of Schedule 7.05, page 2. This \$8,103 increase must be offset by C-R's increase adjustment of \$21, 915 to result in a net decrease in C-R's adjusted revenues of \$13,812. This adjustment is presented on line 6 of page 2 of Schedule 7.05 and included at column c, line 14, on page 1 of Schedule 7.05.

CROSSVILLE TELEPHONE COMPANY

Q. Are you proposing any adjustments for Crossville Telephone Company?

A. Yes. I am proposing an adjustment for the funding difference in FTHCF support between the years 2000 and 2001. Earlier in this testimony, I discuss the calculation of this funding difference. This adjustment is presented on page 2 of Schedule 7.06 and included at column c, line 14, on page 1 of Schedule 7.06.

EGYPTIAN TELEPHONE COOPERATIVE

Q. Are you proposing any adjustments for Egyptian Telephone Cooperative?



265 A. Yes. I am proposing an adjustment for the funding difference in FTHCF support  
266 between the years 2000 and 2001. As I mention earlier in this testimony,  
267 Egyptian Telephone Cooperative ("Egyptian") included an adjustment for a  
268 change in the level of Federal support for the High Cost Loop Fund. Egyptian  
269 decreased its revenues by \$115,746. However, there was also a decrease in  
270 Federal Local Switching Support funding. The \$127,326 Funding Difference  
271 calculated on Schedule 7.20 calculates the total change in Federal support for  
272 the elements of the FTHCF support: High Cost Loop, Interstate Access, Long  
273 Term Support, and Local Switching Support. The \$127,326 decrease in FTHCF  
274 support is shown on line 4 of Schedule 7.07, page 2. This \$127,326 decrease  
275 must be offset by Egyptian's decrease adjustment of \$115,746 to result in a net  
276 decrease in Egyptian's adjusted revenues of \$11,580. This adjustment is  
277 presented on line 6 of page 2 of Schedule 7.07 and included at column c, line  
278 14, on page 1 of Schedule 7.07.

279 EL PASO TELEPHONE COMPANY

280 Q. Are you proposing any adjustments for El Paso Telephone Company?

281 A. Yes. I am proposing two adjustments.

282 Q. What is the first adjustment?

283 A. My first adjustment removes an amount that El Paso Telephone Company ("El  
284 Paso") included in rate base pertaining to assets supporting non-regulated  
285 activities. In the response to Staff Data Request SDR-El Paso-003, El Paso  
286 advised that assets supporting non-regulated activities were included in the rate  
287 base submitted for the Illinois Universal Service Funding Calculation on El Paso  
288 Telephone Company Exhibit 1.0, Schedule 1.01, page 1. El Paso stated: "The  
289 net balance of \$70,902 was incorrectly included in the rate base . . . ." El Paso  
290 provided a revised Illinois Universal Service Funding Calculation that reduced its  
291 amount of Net Regulated Plant by \$70,902. This adjustment is presented on  
292 page 2 of Schedule 7.08 and included at column c, line 1, on page 1 of Schedule  
293 7.08.

294 Q. What is the second adjustment?

295 A. My second adjustment is an adjustment for the funding difference in FTHCF  
296 support between the years 2000 and 2001. As I mention earlier in this  
297 testimony, El Paso included an adjustment for change in level of Federal support  
298 for the High Cost Loop Fund. El Paso decreased its revenues by \$59,997.  
299 However, the decrease in Federal High Cost Loop Fund support was partially  
300 offset by an increase in Federal Local Switching Support funding. The \$36,225  
301 Funding Difference calculated on Schedule 7.20 calculates the total change in  
302 Federal support for the elements of the FTHCF support: High Cost Loop,  
303 Interstate Access, Long Term Support, and Local Switching Support. The

304 \$36,225 decrease in FTHCF support is shown on line 4 of Schedule 7.08, page  
305 2. This \$36,225 decrease must be offset by El Paso's decrease adjustment of  
306 \$59,997 to result in a net decrease in El Paso's adjusted revenues of \$23,772.  
307 This adjustment is presented on line 6 of page 2 of Schedule 7.08 and included  
308 at column c, line 14, on page 1 of Schedule 7.08.

309 FRONTIER COMPANIES

310 Q. What are the Frontier Companies?

311 A. The Frontier Companies are, collectively, the following six telecommunications  
312 corporations requesting IUSF support:

- 313 • Frontier Communications of DePue, Inc. ("FC of DePue"),
- 314 • Frontier Communications of Illinois, Inc. ("FC of Illinois"),
- 315 • Frontier Communications of Lakeside, Inc. ("FC of Lakeside"),
- 316 • Frontier Communications-Midland, Inc. ("FC-Midland"),
- 317 • Frontier Communications-Prairie, Inc. ("FC-Prairie"), and
- 318 • Frontier Communications-Schuyler, Inc. ("FC-Schuyler").

319 I will discuss my adjustments to the six Frontier Companies collectively. The  
320 Staff Calculated Funding Requirements for each of the six above-listed Frontier  
321 Companies are presented on Schedules 7.09 through 7.14.

322 Q. Have you reviewed the Frontier Companies proposed adjustments to include a  
323 Commission-ordered cash balance in rate base?

324 A. Yes. The Frontier Companies discussed these proposed adjustments on page  
325 10 of Frontier Companies Exhibit 1.0 and presented the calculations of these  
326 proposed adjustments on Schedule 1.09 of Frontier Companies Exhibit 1.0.

327 Q. Do you agree with the Frontier Companies proposed adjustments to include a  
328 Commission-ordered cash balance in rate base?

329 A. No. The Frontier Companies wish to earn a return on Commission-ordered cash  
330 balance requirements attributable to the 2001 Capital Budget and the 2002  
331 Extraordinary Expenditures. The Frontier Companies cited the Order entered in  
332 Docket No. 99-0237 on September 28, 1999, and the Order entered in Docket  
333 No. 00-0552 on December 12, 2000, as justification for including these cash  
334 balance requirements in rate base. In the response to Staff Data Request SDR-  
335 Frontier-008, the Frontier Companies stated: "Most funds for the cash balance  
336 requirement are currently kept in account 1401-998-142 for cash management  
337 purposes." The Order in Docket No 90-0271, entered on September 11, 1990,  
338 approved the Cash Management Agreement currently used by the six Frontier  
339 Companies. The rate of return on cash deposits is described on page 2 of the  
340 Cash Management Agreement:

3. Rate of return on Cash Deposits. All cash deposits or the Company with Rochester shall earn a return calculated on a day of recorded deposit to day of return basis at a rate equal to Rochester's Internal Corporate Rate in effect, from time to time, throughout the period of deposit. Rochester's Internal Corporate Rate is calculated on a monthly basis and is equal to the composite rate of return on its investments in commercial paper or other instruments of similar risk and liquidity if Rochester is investing funds. If Rochester is borrowing, it is equal to the rate which Rochester is paying on its commercial paper.

Thus, the six Frontier Companies are earning a return on funds deposited with affiliated companies. If the Frontier Companies were to earn a return on Commission-ordered cash balance requirements attributable to the 2001 Capital Budget and the 2002 Extraordinary Expenditures, the six Frontier Companies would be earning two returns on the same funds: one return by including the Commission-ordered cash balance requirements in rate base and the second return through the Cash Management Agreement. Additionally, the six Frontier Companies will also be earning a return on the investments attributable to the 2001 Capital Budget and the 2002 Extraordinary Expenditures through the inclusion of those plant investments in rate base. I have removed the Commission-ordered cash balance requirements from rate base through the adjustments presented on lines 1 through 4 on page 2 of Schedules 7.09 through 7.14.

Q. Did you review the six Frontier Companies' adjustments for directory revenue and directory expense?

367 A. Yes. The Frontier Companies discussed these proposed adjustments on pages  
368 14 and 15 of Frontier Companies Exhibit 1.0 and presented the calculations of  
369 these proposed adjustments on page 1 of Schedule 1.10 and on page 1 of  
370 Schedule 1.11 of Frontier Companies Exhibit 1.0.

371 Q. Do you agree with the Frontier Companies proposed adjustments for directory  
372 revenue and directory expense?

373 A. No. The Frontier Companies proposed to remove yellow pages directory  
374 advertising revenues and expenses from the Illinois Universal Service Funding  
375 Calculation. These revenues and expenses should be included in the calculation  
376 of IUSF support. This Commission has maintained a policy of including these  
377 revenues in the calculation of rates. I have restored yellow pages directory  
378 advertising revenues and expenses through the adjustments presented on lines  
379 6 through 14 on page 2 of Schedules 7.09 through 7.14.

380 Q. Did you review the six Frontier Companies' adjustments for additional  
381 depreciation expense attributable to the 2001 Capital Budget and the 2002  
382 Extraordinary Expenditures?

383 A. Yes. The Frontier Companies discussed these proposed adjustments to  
384 depreciation expense on page 15 of Frontier Companies Exhibit 1.0 and  
385 presented the calculations of these proposed adjustments on page 2 of  
386 Schedule 1.11 of Frontier Companies Exhibit 1.0.

387 Q. Do you agree with the Frontier Companies proposed adjustments for additional  
388 depreciation expense attributable to the 2001 Capital Budget and the 2002  
389 Extraordinary Expenditures?

390 A. Yes and no. I agree with the depreciation expense adjustments for FC of  
391 Lakeside, FC-Midland, and FC-Schuyler. I do not agree with the depreciation  
392 expense adjustments for FC of DePue, FC of Illinois, and FC-Prairie.

393 For FC of DePue, FC of Illinois, and FC-Prairie, the Frontier Companies  
394 proposed to increase depreciation expense for depreciation on plant additions  
395 included in 2001 Capital Budget and the 2002 Extraordinary Expenditures.  
396 However, for these three Frontier Companies, I disagree with the calculation of  
397 the depreciation expense on the 2002 Extraordinary Expenditures. After  
398 reviewing the calculations presented on page 2 of Schedule 1.11 of Frontier  
399 Companies Exhibit 1.0, it appears that there was an error in the calculation of the  
400 depreciation expense on line 2.

401 I recalculate the depreciation expense on ICC Staff Exhibit 7.0, Schedule 7.21,  
402 entitled "Calculation of Depreciation Expense Adjustment, For the 2001 Capital  
403 Budget and the 2002 Extraordinary Expenditures." Lines 2, 3, and 6 of Schedule  
404 7.19 present the information provided on page 2 of Frontier Companies  
405 Schedule 1.11. Line 8 of Schedule 7.21 calculates a "Composite half-year  
406 depreciation rate" by dividing the "Company calculated depreciation expense of

the 2001 Capital Budget (half year assumed)" on line 6 by the "2001 Capital Budget" on line 2. Line 10 of Schedule 7.21 calculates a "Staff calculated depreciation expense for the 2002 Extraordinary Expenditures (half year assumed)" by multiplying the "2002 Extraordinary Expenditures" on line 3 by the "Composite half-year depreciation rate" on line 8. The "Staff Depreciation Expense" on line 12 is the sum of the "Company calculated depreciation expense of the 2001 Capital Budget (half year assumed)" on line 6 and the "Staff calculated depreciation expense for the 2002 Extraordinary Expenditures (half year assumed)" on line 10.

I believe that it is appropriate to allow only one-half of a year's depreciation on both the plant additions included in the 2001 Capital Budget and the plant additions included in the 2002 Extraordinary Expenditures.

I correct the amounts of the Frontier Companies proposed depreciation expense adjustments through the adjustments presented at lines 16 through 19 on page 2 of Schedule 7.09 for FC of DePue, Schedule 7.10 for FC of Illinois, and Schedule 7.13 for FC-Prairie.

Q. Are you also proposing adjustments for the funding difference in FTHCF support between the years 2000 and 2001 for the six Frontier Companies?



425 A. Yes. I am proposing adjustments for the funding difference in FTHCF support  
426 between the years 2000 and 2001. Earlier in this testimony, I discuss the  
427 calculation of this funding difference.

428 Two of the Frontier Companies, FC of Lakeside and FC-Midland, have increased  
429 their revenues for "New\* USAC Support Revenue" through an adjustment in  
430 column i on Frontier Companies Exhibit 1.0, Schedule 1.10, page 2. The "New\*  
431 USAC Support Revenue" appears to be the Interstate Access support that is  
432 included in the calculation of the funding difference in FTHCF support on  
433 Schedule 7.20. Thus, I am reversing the amounts of "New\* USAC Support  
434 Revenue" on page 2 of Schedules 7.11 for FC of Lakeside and 7.12 for FC-  
435 Midland.

436 My adjustments for the funding difference in FTHCF support between the years  
437 2000 and 2002 are presented at lines 21 through 26 on page 2 of Schedules  
438 7.09 through 7.14.

439 Q. Have you reviewed the Frontier Companies proposed adjustments to  
440 accumulated deferred income taxes?

441 A. Yes. The Frontier Companies discussed these proposed adjustments on pages  
442 8 and 9 of Frontier Companies Exhibit 1.0 and the calculations of these  
443 proposed adjustments is presented on Schedule 1.08 of Frontier Companies  
444 Exhibit 1.0.

445 Q. Do you agree with the Frontier Companies proposed adjustments to  
446 accumulated deferred income taxes?

447 A. I do not know. The purpose and appropriateness of the Frontier Companies  
448 adjustments to accumulated deferred income taxes is unclear. I anticipate that  
449 the Frontier Companies will clarify the purpose and appropriateness for these  
450 adjustments through additional testimony and data responses.

451 FLAT ROCK TELEPHONE COOPERATIVE

452 Q. Are you proposing any adjustments for Flat Rock Telephone Cooperative?

453 A. Yes. I am proposing an adjustment for the funding difference in FTHCF support  
454 between the years 2000 and 2001. Earlier in this testimony, I discuss the  
455 calculation of this funding difference. This adjustment is presented on page 2 of  
456 Schedule 7.15 and included at column c, line 14, on page 1 of Schedule 7.15.

457 GLASFORD TELEPHONE COMPANY

458 Q. Are you proposing any adjustments for Glasford Telephone Company?

459 A. Yes. I am proposing an adjustment for the funding difference in FTHCF support  
460 between the years 2000 and 2001. Earlier in this testimony, I discuss the

461 calculation of this funding difference. This adjustment is presented on page 2 of  
462 Schedule 7.16 and included at column c, line 14, on page 1 of Schedule 7.16.

463 GRAFTON TELEPHONE COMPANY

464 Q. Are you proposing any adjustments for Grafton Telephone Company?

465 A. Yes. I am proposing an adjustment for the funding difference in FTHCF support  
466 between the years 2000 and 2001. Earlier in this testimony, I discuss the  
467 calculation of this funding difference. This adjustment is presented on page 2 of  
468 Schedule 7.17 and included at column c, line 14, on page 1 of Schedule 7.17.

469 GRIDLEY TELEPHONE COMPANY

470 Q. Are you proposing any adjustments for Gridley Telephone Company?

471 A. Yes. I am proposing an adjustment for the funding difference in FTHCF support  
472 between the years 2000 and 2001. As I mention earlier in this testimony, Gridley  
473 Telephone Company ("Gridley") included an adjustment for a change in the level  
474 of Federal support for the High Cost Loop Fund. Gridley increased its revenues  
475 by \$30,681. However, there were increases in Federal Long Term Support  
476 funding and Federal Local Switching Support funding. The \$51,930 Funding  
477 Difference calculated on Schedule 7.20 calculates the total change in Federal

support for the elements of the FTHCF support: High Cost Loop, Interstate Access, Long Term Support, and Local Switching Support. The \$51,930 increase in FTHCF support is shown on line 4 of Schedule 7.18, page 2. This \$51,930 increase must be offset by Gridley's increase adjustment of \$30,681 to result in a net increase in Gridley's adjusted revenues of \$21,249. This adjustment is presented on line 6 of page 2 of Schedule 7.18 and included at column c, line 14, on page 1 of Schedule 7.18.

Q. Is there a second adjustment for Gridley?

A. Yes. Staff witness Marshall, in ICC Staff Exhibit 14.0, is proposing an adjustment to Gridley's access revenues. This adjustment is summarized on lines 8 through 11 of page 2 of Schedule 7.18 and included at column c, line 14, on page 1 of Schedule 7.18.

HARRISONVILLE TELEPHONE COMPANY

Q. Are you proposing any adjustments for Harrisonville Telephone Company?

A. Yes. I am proposing an adjustment for the funding difference in FTHCF support between the years 2000 and 2001. As I mention earlier in this testimony, Harrisonville Telephone Company ("Harrisonville") included an adjustment for a change in the level of Federal support for the High Cost Loop Fund.

Harrisonville increased its revenues by \$356,838. Harrisonville also included an adjustment for a change in the level of Federal support for Local Switching Support. Harrisonville decreased its revenues by \$316,417. However, there was also an increase in Federal Long Term Support funding. The \$14,250 Funding Difference calculated on Schedule 7.20 calculates the total change in Federal support for the elements of the FTHCF support: High Cost Loop, Interstate Access, Long Term Support, and Local Switching Support. The \$14,250 increase in FTHCF support is shown on line 4 of Schedule 7.19, page 2. This \$14,250 increase must be offset by Harrisonville's High Cost Loop Fund increase adjustment of \$356,838 and its Local Switching Support decrease adjustment of \$316,417 to result in a net decrease in Harrisonville's adjusted revenues of \$26,171. This adjustment is presented on line 7 of page 2 of Schedule 7.19 and included at column c, line 14, on page 1 of Schedule 7.19.

CONCLUSION

Q. Does this conclude your Rebuttal Testimony?

A. Yes, it does.

Adams Telephone Cooperative  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	<u>Company Amount</u>	<u>Staff Adjustment</u>	<u>Staff Adjusted Amount</u>	<u>Source</u>
	(a)	(b)	(c)	(d)	(e)
1	Net Regulated Plant	\$ 5,238,530		\$ 5,238,530	
2	Materials and Supplies Inventory	429,681		429,681	
3	Customer Deposits	33,946	-	33,946	
4	ADIT - Regulated Plant	-	-	-	
5	Rate Base before Working Capital	5,634,265	-	5,634,265	line 1 + line 2 - line 3 - line 4
6	Working Capital Requirement				
7	Total Operating Expenses	4,192,562		4,192,562	
8	Less: Depreciation Expense	826,245	-	826,245	
9	Total WC Operating Expense	3,366,317	-	3,366,317	line 7 - line 8
10	WC OE Requirement	420,790	-	420,790	line 9 * 45 / 360
11	Commission-Ordered Cash Balance Require	-	-	-	
12	Total Working Capital Requirement	420,790	-	420,790	line 10 + line 11
13	Total Rate Base	6,055,055	-	6,055,055	line 5 + line 12
14	Total Operating Revenues	4,793,069	78,825	4,871,894	page 2, line 4
15	Less: Illinois High Cost Fund	52,356	-	52,356	
16	Net Operating Revenues	4,740,713	78,825	4,819,538	line 14 - line 15
17	Total Operating Expenses	4,192,562	-	4,192,562	
18	Other Operating Inc and Exp - Net	-	-	-	
19	Other Operating Taxes	-	-	-	
20	Net Op Inc before Income Taxes	548,151	78,825	626,976	line 16 - lines 17, 18, & 19
21	Income Tax Expense	-	-	-	line 34
22	Net Operating Income	548,151	78,825	626,976	line 20 - line 21
23	Return on Rate Base	9.05%		10.35%	line 22 / line 13
24	After-tax Cost of Capital	12.60%	12.60%	12.60%	
25	Target Net Operating Income	762,937	-	762,937	line 24 * line 13
26	Adj to Achieve Target Return on RB	214,786	(78,825)	135,961	line 25 - line 22
27	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	line 35
28	Staff ROR Deficiency	214,786	(78,825)	135,961	line 26 * line 27
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	548,151	78,825	626,976	line 20
31	Illinois Inc & Rep Tax Expense	-	-	-	
32	Net Op Inc before Fed Inc Tax	548,151	78,825	626,976	line 30 - line 31
33	Federal Income Tax Expense	-	-	-	
34	Total Imputed Income Tax Expense	-	-	-	line 31 + line 33
35	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	

Docket Nos. 00-0233 & 00-0335 (Consolidated)--Phase II  
ICC Staff Exhibit 7.0, Schedule 7.01

Page 2 of 2

Adams Telephone Cooperative  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	<u>Amount</u>			<u>Source</u>
	(a)	(b)	(c)	(d)	(e)
1	Funding Difference--FTHCF Support				
2	2001 Annualized FTHCF Support	\$ 786,762			Schedule 7.20, column d
3	2000 Total FTHCF Support	<u>707,937</u>			Schedule 7.20, column c
4	Adjustment	<u>\$ 78,825</u>			line 1 - line 2
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					

Docket Nos. 00-0233 & 00-0335 (Consolidated)--Phase II  
ICC Staff Exhibit 7.0, Schedule 7.02

Page 1 of 2

Alhambra-Grantfork Telephone Company  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	<u>Company Amount</u>	<u>Staff Adjustment</u>	<u>Staff Adjusted Amount</u>	<u>Source</u>
	(a)	(b)	(c)	(d)	(e)
1	Net Regulated Plant	\$ 1,343,087		\$ 1,343,087	
2	Materials and Supplies Inventory	26,942		26,942	
3	Customer Deposits	6,677	-	6,677	
4	ADIT - Regulated Plant	96,878	-	96,878	
5	Rate Base before Working Capital	1,266,474	-	1,266,474	line 1 + line 2 - line 3 - line 4
6	Working Capital Requirement				
7	Total Operating Expenses	892,204	(15,693)	876,511	
8	Less: Depreciation Expense	214,165	-	214,165	
9	Total WC Operating Expense	678,039	(15,693)	662,346	line 7 - line 8
10	WC OE Requirement	84,755	(1,962)	82,793	line 9 * 45 / 360
11	Commission-Ordered Cash Balance Require	-	-	-	
12	Total Working Capital Requirement	84,755	(1,962)	82,793	line 10 + line 11
13	Total Rate Base	1,351,229	(1,962)	1,349,267	line 5 + line 12
14	Total Operating Revenues	1,443,946	(1,437)	1,442,509	page 2, line 4
15	Less: Illinois High Cost Fund	311,199	-	311,199	
16	Net Operating Revenues	1,132,747	(1,437)	1,131,310	line 14 - line 15
17	Total Operating Expenses	892,204	(15,693)	876,511	
18	Other Operating Inc and Exp - Net	-	-	-	
19	Other Operating Taxes	14,689	-	14,689	
20	Net Op Inc before Income Taxes	225,854	14,256	240,110	line 16 - lines 17, 18, & 19
21	Income Tax Expense	87,493	5,523	93,016	line 34
22	Net Operating Income	138,361	8,733	147,094	line 20 - line 21
23	Return on Rate Base	10.24%		10.90%	line 22 / line 13
24	After-tax Cost of Capital	11.21%	11.21%	11.21%	
25	Target Net Operating Income	151,473	(220)	151,253	line 24 * line 13
26	Adj to Achieve Target Return on RB	13,112	(8,953)	4,159	line 25 - line 22
27	Gross Revenue Conversion Factor	1.6324	1.6324	1.6324	line 35
28	Staff ROR Deficiency	21,404	(14,615)	6,789	line 26 * line 27
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	225,854	14,256	240,110	line 20
31	Illinois Inc & Rep Tax Expense	16,216	1,024	17,240	line 30 * 7.18%
32	Net Op Inc before Fed Inc Tax	209,638	13,232	222,870	line 30 - line 31
33	Federal Income Tax Expense	71,277	4,499	75,776	line 32 * 34.00%
34	Total Imputed Income Tax Expense	87,493	5,523	93,016	line 31 + line 33
35	Gross Revenue Conversion Factor	1.6324	1.6324	1.6324	1 / ((1 - .0718) * (1 - .34))



Docket Nos. 00-0233 & 00-0335 (Consolidated)--Phase II  
ICC Staff Exhibit 7.0, Schedule 7.02

Page 2 of 2

Alhambra-Grantfork Telephone Company  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	<u>Amount</u>			<u>Source</u>
	(a)	(b)	(c)	(d)	(e)
1	Funding Difference--FTHCF Support				
2	2001 Annualized FTHCF Support	\$ 216,414			Schedule 7.20, column d
3	2000 Total FTHCF Support	<u>217,851</u>			Schedule 7.20, column c
4	Adjustment	<u>\$ (1,437)</u>			line 1 - line 2
5					
6	Station Apparatus Expense				
7	Station Apparatus Expense per Staff	\$ -			
					A-G's 2000 ICC Form 23A, p.
8	Station Apparatus Expense per Company	<u>15,693</u>			12, Account 6311
9	Adjustment	<u>\$ (15,693)</u>			line 7 - line 8
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					

Docket Nos. 00-0233 & 00-0335 (Consolidated)--Phase II  
ICC Staff Exhibit 7.0, Schedule 7.03

Page 1 of 2

Cambridge Telephone Company  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

Line #	Description	Company Amount	Staff Adjustment	Staff Adjusted Amount	Source
	(a)	(b)	(c)	(d)	(e)
1	Net Regulated Plant	\$ 1,286,171		\$ 1,286,171	
2	Materials and Supplies Inventory	-		-	
3	Customer Deposits	4,148	-	4,148	
4	ADIT - Regulated Plant	21,279	-	21,279	
5	Rate Base before Working Capital	1,260,744	-	1,260,744	line 1 + line 2 - line 3 - line 4
6	Working Capital Requirement				
7	Total Operating Expenses	1,200,762		1,200,762	
8	Less: Depreciation Expense	284,160	-	284,160	
9	Total WC Operating Expense	916,602	-	916,602	line 7 - line 8
10	WC OE Requirement	114,575	-	114,575	line 9 * 45 / 360
11	Commission-Ordered Cash Balance Require	-	-	-	
12	Total Working Capital Requirement	114,575	-	114,575	line 10 + line 11
13	Total Rate Base	1,375,319	-	1,375,319	line 5 + line 12
14	Total Operating Revenues	1,386,094	(5,574)	1,380,520	page 2, line 4
15	Less: Illinois High Cost Fund	22,836	-	22,836	
16	Net Operating Revenues	1,363,258	(5,574)	1,357,684	line 14 - line 15
17	Total Operating Expenses	1,200,762	-	1,200,762	
18	Other Operating Inc and Exp - Net	-	-	-	
19	Other Operating Taxes	1,255	-	1,255	
20	Net Op Inc before Income Taxes	161,241	(5,574)	155,667	line 16 - lines 17, 18, & 19
21	Income Tax Expense	62,463	(2,159)	60,304	line 34
22	Net Operating Income	98,778	(3,415)	95,363	line 20 - line 21
23	Return on Rate Base	7.18%		6.93%	line 22 / line 13
24	After-tax Cost of Capital	11.21%	11.21%	11.21%	
25	Target Net Operating Income	154,173	-	154,173	line 24 * line 13
26	Adj to Achieve Target Return on RB	55,395	3,415	58,810	line 25 - line 22
27	Gross Revenue Conversion Factor	1.6324	1.6324	1.6324	line 35
28	Staff ROR Deficiency	90,427	5,575	96,001	line 26 * line 27
29	Calculation of Income Tax Expense				
30	Net Op Inc before Inc Taxes	161,241	(5,574)	155,667	line 20
31	Illinois Inc & Rep Tax Expense	11,577	(400)	11,177	line 30 * 7.18%
32	Net Op Inc before Fed Inc Tax	149,664	(5,174)	144,490	line 30 - line 31
33	Federal Income Tax Expense	50,886	(1,759)	49,127	line 32 * 34.00%
34	Total Imputed Income Tax Expense	62,463	(2,159)	60,304	line 31 + line 33
35	Gross Revenue Conversion Factor	1.6324	1.6324	1.6324	1 / ((1 - .0718) * (1 - .34))

Docket Nos. 00-0233 & 00-0335 (Consolidated)--Phase II  
ICC Staff Exhibit 7.0, Schedule 7.03

Page 2 of 2

Cambridge Telephone Company  
Illinois Universal Service Funding Calculation  
Staff Calculated Funding Requirement

<u>Line #</u>	<u>Description</u>	<u>Amount</u>			<u>Source</u>
	(a)	(b)	(c)	(d)	(e)
1	Funding Difference--FTHCF Support				
2	2001 Annualized FTHCF Support	\$ 197,166			Schedule 7.20, column d
3	2000 Total FTHCF Support	202,740			Schedule 7.20, column c
4	Adjustment	<u>\$ (5,574)</u>			line 1 - line 2
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					